

Putting Empty Retail Space to Work

By Michael Hart

Traditional retail has been facing new challenges for years and this year, retail landlords in New York City faced a specific challenge when several blocks of well-known retail buildings shut down. How the landlords in the surrounding area took action to confront this issue is instructive. It provides ideas for how retailers and landlords might take action as the Chinese retail market starts to face similar challenges.

Retail Clusters

The importance of retail clusters and trade areas is not always obvious to outsiders. For retailers, sometimes the best location for a successful store, is right next to their competitors. Imagine three malls side by side and a fourth one a few blocks away all on its own. When planning a shopping expedition, most shoppers would opt to head to the area with more retail options, in this case the cluster of three malls, even if the lone shopping center has good brands. So often, retail that is clustered together, allowing shoppers to walk from one to another is a winning combination.

Why Retail Space is Struggling

Globally, the rise of online shopping has created a big challenge for physical retail shops and the landlords who house them such as shopping centers and retail street shops. As shoppers go online, retailers have been reducing their store count and as a result, many malls and shopping streets are hollowing out. At the same time this has happened, overbuilding of retail and office space in China has added to the problem, creating more retail space when even less is needed. Add to this challenge a slowing economy and shoppers turning more conservative as they worry about the future. The end result is a physical retail real estate market faced with multiple challenges and more buildings sitting empty.

Holiday spending key for retailers

Retailers have learned over the years that holiday spending is crucial to delivering their annual sales targets. Just a few key sales periods such as the Christmas shopping season and back to school sales result in a significant amount of a retailer's annual revenues. This is one reason that in the USA, the day after Thanksgiving in late November is known as black Friday. Sales timed for this day kick off the Christmas shopping season and get shoppers out into retail malls. Cyber Monday, was created to get shoppers focused on shopping online the following week. Chinese online retailers have created a similar and even larger phenomena with the "Singles" shopping day on November 11. Traditional retail shopping in China is now impacted as shoppers put off big purchases, waiting for deals on November 11. In major cities in the USA, a key part of this

holiday shopping season is getting folks out window shopping regardless of how cold it might be. In New York City for years retailers have competed to create window displays that get shoppers out on the streets and then into their stores. Going out to tour the creative and sometimes moving window displays has become an annual tradition for many families with retailers being rewarded with higher sales volumes.

The perfect storm

This year in New York, retailers along Fifth Avenue were faced with a perfect storm. Holiday sales generate a disproportionate amount of their annual sales and profits, retail space clustered together draws consumers out and holiday store decorations help drive traffic along these shopping clusters, but this year online sales and other factors had finally killed off some retailers, leaving a big gap of empty windows and store fronts right in the middle of the areas that shoppers usually go. What were the surviving retailers to do? The remaining retailers, members of the Fifth Avenue Association, an organization created to promote business for its members, decided to use their money to put up decorations in stores that were empty, in order to create the uninterrupted street attractions that would keep shoppers coming to the area and encourage them to keep walking up and down these key retail streets. By all accounts the shoppers in New York this holiday season seem to be out in full force and few seem to realize that many of the buildings they are passing are in fact empty behind the traditional window decorations that the local trade promotion group has funded.

Lessons learned

This exceptional example of landlords in the area paying money to put up holiday decorations in empty buildings- effectively those of their fallen competitors, shows how well these surviving landlords and retailers understand the power of retail clusters and intact trade areas. It is also an example that landlords and retailers in China should pay attention to. Trade areas that are well known to consumers bring traffic to all stores in the area and just as locating next to your competitors can benefit both of you, taking the time to decorate your neighbors empty store fronts can pay dividends for nearby surviving retailers. And it works inside malls as well as along retail streets. A half-empty mall is not attractive to shoppers, so landlords and retailers can pitch in to create temporary store fronts and other short terms attractions to fill up retail space. These could be art exhibits, charity events or holiday themed popup stores. Stewardship is still a foreign concept to many in the commercial real estate industry in China who often believe in a winner take all mentality. However, the retail industry is providing an example that we should all be thinking about as a model to apply in our own businesses and industries. Invest a little in your neighborhood and you might benefit as well.

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